



**Testimony by Nicholas Donofrio  
and Matt Fleury**

Board of Regents for Higher Education  
Presented to the Higher Education and  
Employment Advancement and  
Appropriations Committees  
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Thank you and good morning and to all of the Higher Education and Appropriations committee members who are here today.

My name is Nick Donofrio, and I have the privilege of being the Chairman of the Board of Regents for Higher Education, a position I have held for the last six months. With me here today is Matt Fleury, who some of you may know as the CEO of the Connecticut Science Center, but who is also a distinguished graduate of Charter Oak State College and the Chairman of the Finance and Infrastructure Subcommittee of our Board.

Joining us for any questions you may have at the conclusion of our presentation are Dr. Gregory Gray, President of the Board of Regents, and Erika Steiner, our Chief Financial Officer.

As you likely know, the Board of Regents is the governing body for 17 public higher education institutions in our state, including 12 community colleges, 4 state universities, and Charter Oak State College. Combined, these institutions serve a total of just over 90,000 credit-seeking students, and a further 30,000 non-credit students. Over the course of the last several weeks, Board of Regents institutions conferred over 12,000 degrees and over 2,000 certificates to students, the overwhelming majority of whom will permanently settle here in Connecticut.

I plan to take a few minutes to talk about some key initiatives we are pursuing now, all of which have budgetary impact, then Matt will discuss in greater detail the fiscal year 2014 projections and the fiscal year 2015 budgets and budget process, and we will then take your questions.

**TRANSFORM CSCU 2020**

It is no doubt an exciting time to have a role in leading these 17 institutions, especially as Governor Malloy and this General Assembly provided \$83.5 million in new capital funding and \$42 million in new operating funding as a down payment for Transform CSCU 2020, a collection of over 20 initiatives designed not only to continue the process of bringing our institutions closer together as a system and improve services to students, but to position our institutions as a driver of this state's economy.

Examples of these initiatives, each of which has a leader responsible for planning and a roadmap to execution, are: Making student transfer seamless, growing early college programs, developing sensible shared metrics to measure success, creating pathways with the technical high school system, improving organizational efficiency, and assessing our system IT needs.

Executing some of these initiatives will require a further investment on the part of the state, and we look forward to discussing that possibility with you in the future, but some of these initiatives are no-cost, and the only impediments to their completion are time and focus.

I am happy to say that the first initiative has been completed, and beginning in the 2015-2016 academic years, the academic calendar will be unified across the system, allowing students to more easily take courses at multiple institutions as they may need. I think it is also important to highlight that we have just recently decided to add campus safety as a Transform initiative, so that we can put the maximum amount of effort into meeting, and hopefully far exceeding, the requirements of the recently passed campus sexual violence legislation.

### **GO BACK TO GET AHEAD**

The most visible of any of the Transform initiatives, and one with the greatest potential for near-term budget impact, is Go Back to Get Ahead. With \$6 million in funding provided by this year's state budget adjustments, we hope to serve over 3,000 students who either left college prior to completing their degree, or who received an Associate's degree and now seek to transfer those credits into a Bachelor's degree program.

You may have noticed over the last few weeks radio advertisements, interviews, web ads, and news stories announcing this exciting program. This program provides students with the opportunity to receive up to 9 credits of coursework, plus college- and university-wide fees for up to three semesters, for free, provided the student meets certain requirements for course load and academic standing.

Since launching the program on June 2, over 3,000 students filled out a form to engage with a counsellor for more information or to see if they are eligible to participate in the program. These initial results are encouraging, not only because increased enrollment in our intuitions is important for our stability moving forward, but because we are reaching out to a new market as we face declining numbers of high school graduates. These new students are already established in this state, and this program offers long term economic benefits to the student, our system, and our state all at the same time, while also increasing educational attainment in Connecticut.

I want to thank the Governor for his commitment toward seeking additional funds for the program if they are needed to satisfy the number of students interested in attending one of our schools.

## **DEVELOPMENTAL EDUCATION**

For my last update before I turn it over to my colleague, I want to also let you know that the system continues to aggressively implement developmental education reform, thanks to the increase in funding provided in the 2015 budget. Each institution is currently deciding which adult education provider they will team up with to provide services to transitional strategy students, as well as working toward memoranda of understanding that will ensure accountability in the use of these dollars. Most of these partnerships will be in place prior to the fall 2014 semester, though there are institutions that, at their option and discretion, will spend additional time perfecting their developmental education programs.

I'd like to now ask Matt Fleury to speak to you in more detail about our budget and budget process.

**MATT FLEURY:** Thank you Nick, and good morning ladies and gentlemen. I'm pleased to share with you today an overview of the Connecticut State Colleges and Universities projections for the current year which ends next week, and to discuss actions underway to further improve our results in the future.

For 2014, the year about to end, we are projecting a near break-even year when you consider the colleges and the universities together as a system; however, when you break these numbers down by constituent unit, we expect the Community Colleges will have negative results of approximately \$2.2 million and the Universities will end the year with a small surplus of about \$2.5 million. Charter Oak State College projects to break even for the year.

The negative results projected by the Colleges are of particular concern as it serves to further deteriorate Unrestricted Net Assets, our reserves, which have been declining since fiscal year 2011. This negative trend is attributed to increased costs of personnel and fringe benefits, recent declines in enrollment, and a state appropriation which is still below 2011 levels. The use of reserves this year leaves the colleges with a projected balance of \$11.4 million in Unrestricted Net Assets. The universities are projected to have a balance of \$129 million, much of which is designated for debt service and miscellaneous construction projects.

Moving forward, we have taken on a rigorous review of the budgets for 2015. The Finance Committee of the Board of Regents for Higher Education held budget hearings with all seventeen institutions as well as the system office over a three-day period. For the community colleges, this was a new practice. It is one I strongly support as I believe

it causes institutions to think more critically about proposed expenses with an eye toward delivering services as economically as possible.

Each president and financial executive presented comprehensive materials concerning academic programs, students, and communities. We had posed eight questions to which each team responded; these questions focused on enrollment strategies, challenges and opportunities, and other key priorities for the institutions and for the system as a whole. We believe that this provided an excellent foundation for evaluating the budget process and the resulting financial data. We have stretched our institutions and asked much of them in order to meet our commitments for a balanced budget.

Since the board just approved a 2015 budget last Wednesday, it is now up to the institutions and their leadership to manage these budgets responsibly, and up to the Board to monitor that they are doing so.

Attached to this testimony, you will find the staff report that accompanied the FY 2015 budget proposal the Board passed last Wednesday, and page three shows the FY 2015 projections for the system. While numerous colleges show a deficit on paper, you will note that \$7.6m has been left undistributed for Go Back to Get Ahead. As students register at a particular institution, those dollars would then be available for the institutions to balance their budget, and as such, we are confident that in the upcoming fiscal year, our institutional and system budgets will be in balance with a couple of exceptions, and those are explained on page two.

Supporting us in this effort was \$42M of additional funding provided by the state which allowed us to maintain tuition and fees at lowest levels possible, with an overall 2% increase for 2015. Without this funding, which includes the support for our Go Back to Get Ahead program, we would be unable to meet our fundamental objective, as the state's comprehensive system of public higher education, of accessibility and affordability to all Connecticut students.

**NICK DONOFRIO:** I would like to step back a moment and offer a broad perspective on not just these numbers and the short term status of our budget, but on where I truly feel we are as a system and where we should be as a system, and what is really required to close the gap between those two ideas.

I think one of the most obvious conclusions one can draw by looking at the funding we required this past session to keep our tuition increase to only 2%, coupled with the steady decline in the percentage of courses taught by full-time faculty over time, and shrinking reserves at the community colleges, is that this system is clearly more expensive to operate than it is funded. Not only that, but by operating schools in small communities that need access to affordable higher education, we are purposefully

operating a system that is inefficient to a degree – and we should do this, for the good of the residents of this state and the economic future of this state.

I think what is sometimes lost in the perpetual conversations about how to cut enough to balance the budget is that by and large, anytime we as regents and fiduciaries are engaging in this responsibility, we are limited to finding additional resources out of only 20% of the budget, as nearly 80% is labor cost over which we have little control. I don't say this to begrudge the fact, but just to remind those here today that the reality is there are only so many levers we are able to pull as we engage in yearly budgeting.

Nor do I say this to complain, because these challenges and realities force our system to work better and perform more efficiently wherever possible. For fiscal year 2015, we agreed to find \$10 million dollars in savings outside of our tuition increase and state appropriation to balance our budget. We expect to be able to increase that commitment in future years through the gains we will make through Transform CSU. I welcome the responsibility to find these savings, but I also ask the members of this panel to partner with us in welcoming that responsibility as well.

As we work through this process, there is one thing I can absolutely guarantee, and that is at some point, after thorough input, we will make decisions that one group or another does not support. What I am asking you to do is ask the same question I will be asking regents and staff to consider as we contemplate the multiple initiatives we are undertaking – *“Now, what good does this do for the student?”* The answer to this question should absolutely be the primary determinant of what drives the policy and legislative decisions made in the coming months and years.

Higher education budgets are supported by multiple beams and struts, each of them weight bearing: tuition, state appropriations, operational efficiencies, and philanthropic gifts. Limit the strength of one and necessarily the others must carry more of the load.

I don't think that there is anyone that will disagree that we absolutely must limit any increase in tuition to the lowest possible level. This is despite our comparative value, as the 2<sup>nd</sup> least expensive community college state, and an average cost 4-year-university state in the New England-New York region. But, limiting tuition forces a conversation between the Board and this legislature, and indeed bold action, regarding the other three areas. My commitment to you is that we will be pursuing these options aggressively, but again in partnership with you, and I look forward to the opportunity to share our ideas, plans, and needs on these issues with you soon.

Thank you for your time this morning.

**ITEM**

Approval of FY 2015 Institutional Spending Plans for the Connecticut State Colleges & Universities.

**RECOMMENDED MOTION FOR FULL BOARD**

RESOLVED, that the Board of Regents hereby approves the FY 2015 Institutional Spending Plans for the Connecticut State Colleges & Universities as described in Attachment A.

The seventeen institutions, as well as the System Office, provided individual budgets to the Finance Committee over three days of budget hearings. Each institution was asked to respond to eight questions in order to focus the discussion on priorities faced by the CSCU System:

1. What is your enrollment strategy for FY 2015 and forward?
2. What are your near-term challenges and opportunities? Long-term?
3. Please outline contingency plans. If required to reduce your budget by 5%, what measures could be undertaken?
4. How will Transform CSCU 2020 impact your institution?
5. Do you believe that your coursework/program offerings are well balanced? Would you add/eliminate any?
6. Please comment on your staffing levels.
7. Please comment on any unique projects, both operational and capital, planned for the near-term.
8. Please identify services that might be shared among all institutions to provide system-wide cost savings.

Each institution's President and finance officer provided insight concerning their academic programs, students and communities. Summary financial schedules served as the basis for discussion concerning the FY 2015 Budget.

**ANALYSIS**

For consistency and enhancements, changes were made to distribution models for FY 2015 by adopting best practices offered by the colleges and the universities. Consistent with prior years, those institutions that were negatively impacted were funded separately to dilute the effect of sudden funding changes. We believe that the models adopted provide transparency and fair distribution of our resources. These models will continue to evolve in order to recognize new factors and programmatic differences; proposed changes will be presented to the Finance Committee once developed.

In FY 2015, the CSCU was afforded funding for a number of strategic initiatives. Two in particular impact the distribution of funds and presentation of the consolidated budgets for the year: (1) Operations & Tuition support of \$24.2M, and (2) \$6.0M for the Go Back to Get Ahead program ("GBTGA").

The Operations & Tuition support was afforded by the Governor and General Assembly in order to support a low, 2% increase in tuition and fees for FY 2015. The tuition and fee increase was approved by the BOR on March 13, 2014. We distributed to each of the seventeen institutions a “tuition differential”, calculated by multiplying tuition and fees by 3%. The effect was to bring overall revenue up to a level of 5% on tuition which is in line with compensation increases mandated for FY 2015. Additional distributions were made as described above in order to dilute the impact of distribution model changes, and to fund system-wide projects at System Office. Of the \$24.2M provided, \$2.2M remains to cover unanticipated requirements of the colleges and/or universities. This is shown in the table below.

The \$6.0M support for GBTGA will be used to support tuition and fees of qualified students and administrative costs of the program. The respective students will also be contributing tuition revenue. Until the program is underway, there is no way to predict where the students will attend. As such, estimated revenue of \$7.6M is shown at the system level in the table below. This estimate presupposes an equal mix of students at the three constituent groups: colleges, universities, and Charter Oak State College. The actual amount will differ depending upon how the actual distribution unfolds.

As a result of these two unallocated lines of revenue, some of the institutions are reporting a loss, or use of funds, which is expected to be remedied with increased enrollment generated by GBTGA students. We estimated that 180 students brought into any of the colleges would result in about \$340,000 of revenue, and therefore a loss of \$(340,000) was allowable as this is a relatively low estimate of the number of students we expect. Five of the colleges and three of the universities project a break-even or slight profit even without the benefit of GBTGA.

With costs rising at a higher rate than the combination of state appropriations, tuition/fees, and additional state support, some of our institutions found themselves stretched. We tasked each institution to develop a plan to remain within the \$(340,000) or better, and all except for two were successful.

- Western Connecticut State University is requesting that the BOR support an investment in enrollment initiatives. The funds of \$1.2M would come from accumulated reserves and will be used for recruitment and outreach, as well as a campaign, targeted to improve and counter enrollment trends. Western launched a similar program last fiscal year targeted at improving retention; that plan proved to be successful: retention rose by 5.8 percentage points to a three year high of 74.3%.
- Tunxis Community College is expecting a \$1.1M loss in the current FY 2014 year, and was unable to develop an action plan to reduce projected loss of \$1.2M for FY 2015. We will work along with the management team to improve this projection prior to the first quarter update of FY 2015.

The table below summarizes the FY 2015 budgeted Net Funds Added/(Used) by each institution, and the impact of the two state support items described above, as well as comparatives to FY 2014 Budget and FY 2014 Projections:

	<u>Net Funds Added/(Used)</u>		
	<u>FY14 Budget</u>	<u>FY 14 Projection</u>	<u>FY15 Budget</u>
Manchester	-	(204,133)	-
Northwestern	-	-	(358,688)
Norwalk	-	-	(347,856)
Housatonic	-	(707,460)	-
Middlesex	-	(212,290)	(343,457)
Capital	-	244,230	-
Naugatuck	-	(125,126)	3,327
Gateway	-	(2,333,055)	(340,000)
Tunxis	(797,105)	(1,074,166)	(1,218,345)
Three Rivers	-	791,868	(141,293)
Quinebaug	-	-	-
Asnuntuck	-	(154,812)	(254,421)
SO	-	1,537,718	-
Total CCC	<u>(797,105)</u>	<u>(2,237,226)</u>	<u>(3,000,733)</u>
Central	430,251	674,298	-
Eastern	-	1,421,910	-
Southern	-	452,246	30,829
Western	-	-	(1,248,652)
SO	-	30,648	-
Total CSU	<u>430,251</u>	<u>2,579,102</u>	<u>(1,217,823)</u>
Charter Oak	656	(139,213)	64,918
BOR	-	-	-
Subtotal CSCU	<u>(366,198)</u>	<u>202,663</u>	<u>(4,153,638)</u>
Operational Support			<u>2,200,000</u>
Subtotal CSCU			<u>(1,953,638)</u>
Go Back to Get Ahead			7,613,457
TOTAL CSCU	<u>(366,198)</u>	<u>202,663</u>	<u>5,659,819</u>

### Budget Assumptions

The following assumptions have been incorporated into the FY 2015 Budget:

- General Fund Appropriations totaling \$313,800,166.
- Fringe benefit rates are 5% higher than FY 2014.

- 70% rate for General Fund fringe paid by the State.
- Overall inflationary rate of 2.9% applied on operating expenses.

**Budget Risks**

The following risks should be considered in evaluating our FY15 Budget:

- Most of the colleges and universities have projected flat or slight increases in enrollment; however enrollments have been trending down in general. If enrollments continue to go down in FY15 we could lose tuition and fee revenue.
- We have established fringe rate projections based on the best information available to us. If employees convert from the ARP to the SERS retirement plan in large numbers, it will negatively impact our fringe benefit costs in excess of budgeted amounts.
- We have tasked several of our colleges to improve projected results from those originally submitted. While they have developed action plans to support these reductions, it may be difficult to fully achieve these savings. The institutions are however fully committed to achieving their budgets.
- The funding for CSCU as a whole includes revenues generated by GBTGA, which is an innovative program designed to bring in more students. We have no history to rely on for projecting prospective participation, and our ability to break even in FY 2015 hinges on success of the program.
- The colleges have experienced a year-over-year reduction in Unrestricted Net Assets since FY 2011; if additional losses are incurred in FY 2015, the total would again be reduced.

**Budget Opportunities**

The following opportunities should also be considered in evaluating the FY15 Budget:

- Each institution was asked to develop a contingency plan in the event risks should materialize.
- GBTGA is also an opportunity for CSCU. We believe that if the program is very successful and exceeds the current level of funding that the State may support the program further with additional funding.

**Conclusion**

We believe that the FY 2015 Budget presented, when taken with both risks and opportunities, is well balanced and achievable, and therefore request BOR approval as stated in the Recommended Motion above.